

LAKELAND FINANCIAL CORP
Form 10-Q
August 02, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

X QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2006

OR

oTRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

LAKELAND FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Indiana
(State or other jurisdiction
Of incorporation)

0-11487
(Commission File Number)

35-1559596
(IRS Employer
Identification No.)

202 East Center Street, P.O. Box 1387, Warsaw, Indiana 46581-1387

(Address of principal executive offices)(Zip Code)

(574) 267-6144

Registrant's telephone number, including area code

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☒

Number of shares of common stock outstanding at July 31, 2006: 12,080,258

LAKELAND FINANCIAL CORPORATION

Form 10-Q Quarterly Report

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PART 1

LAKELAND FINANCIAL CORPORATION

ITEM 1 FINANCIAL STATEMENTS

LAKELAND FINANCIAL CORPORATION

CONSOLIDATED BALANCE SHEETS

As of June 30, 2006 and December 31, 2005

(in thousands except for share data)

(Page 1 of 2)

	June 30, 2006 (Unaudited)	December 31, 2005
ASSETS		
Cash and due from banks	\$ 74,402	\$ 77,387
Short-term investments	22,981	5,292
Total cash and cash equivalents	97,383	82,679
Securities available for sale (carried at fair value)	288,625	290,935
Real estate mortgages held for sale	765	960
Loans, net of allowance for loan losses of \$13,792 and \$12,774	1,262,518	1,185,956
Land, premises and equipment, net	24,232	24,563
Bank owned life insurance	20,133	19,654
Accrued income receivable	7,645	7,416
Goodwill	4,970	4,970
Other intangible assets	930	1,034
Other assets	20,360	16,446
Total assets	\$ 1,727,561	\$ 1,634,613

(continued)

LAKELAND FINANCIAL CORPORATION

CONSOLIDATED BALANCE SHEETS

As of June 30, 2006 and December 31, 2005

(in thousands except for share data)

(Page 2 of 2)

	June 30, 2006 (Unaudited)	December 31, 2005
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Noninterest bearing deposits	\$ 248,159	\$ 247,605
Interest bearing deposits	1,159,921	1,018,640
Total deposits	1,408,080	1,266,245
Short-term borrowings		
Federal funds purchased	6,500	43,000
Securities sold under agreements to repurchase	96,822	91,071
U.S. Treasury demand notes	2,528	2,471
Other short-term borrowings	50,000	75,000
Total short-term borrowings	155,850	211,542
Accrued expenses payable	11,672	10,423
Other liabilities	642	2,095
Long-term borrowings	45	46
Subordinated debentures	30,928	30,928
Total liabilities	1,607,217	1,521,279
STOCKHOLDERS' EQUITY		
Common stock: 180,000,000 shares authorized, no par value		
12,077,258 shares issued and 11,995,124 outstanding as of June 30, 2006		
11,972,108 shares issued and 11,894,684 outstanding as of December 31, 2005	1,453	1,453
Additional paid-in capital	15,751	14,287
Retained earnings	110,251	102,327
Accumulated other comprehensive loss	(6,094)	(3,814)
Treasury stock, at cost (2006 - 82,134 shares, 2005 - 77,424 shares)	(1,017)	(919)
Total stockholders' equity	120,344	113,334
Total liabilities and stockholders' equity	\$ 1,727,561	\$ 1,634,613

The accompanying notes are an integral part of these consolidated financial statements.

LAKELAND FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

For the Three Months and Six Months Ended June 30, 2006 and 2005

(in thousands except for share and per share data)

(Unaudited)

(Page 1 of 2)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
NET INTEREST INCOME				
Interest and fees on loans				
Taxable	\$ 22,405	\$ 16,154	\$ 43,032	\$ 30,667
Tax exempt	74	40	132	85
Interest and dividends on securities				
Taxable	2,437	2,364	4,998	4,636
Tax exempt	595	587	1,202	1,174
Interest on short-term investments	274	45	347	101
Total interest income	25,785	19,190	49,711	36,663
Interest on deposits	10,753	5,082	19,477	9,530
Interest on borrowings				
Short-term	1,394	1,063	3,196	1,743
Long-term	629	541	1,216	1,035
Total interest expense	12,776	6,686	23,889	12,308
NET INTEREST INCOME	13,009	12,504	25,822	24,355
Provision for loan losses	639	662	1,092	1,120
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	12,370	11,842	24,730	23,235
NONINTEREST INCOME				
Wealth advisory and investment brokerage fees	1,007	791	1,912	1,519
Service charges on deposit accounts	1,965	1,703	3,685	3,252
Loan, insurance and service fees	625	496	1,198	962
Merchant card fee income	568	629	1,148	1,165
Other income	507	392	1,020	988
Net gains on sales of real estate mortgages held for sale	178	207	330	451
Net securities gains (losses)	(56)	0	(54)	0
Total noninterest income	4,794	4,218	9,239	8,337

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LAKELAND FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

For the Three Months and Six Months Ended June 30, 2006 and 2005

(in thousands except for share and per share data)

(Unaudited)

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
NONINTEREST EXPENSE				
Salaries and employee benefits	5,525	5,027	11,014	10,173
Net occupancy expense	612	675	1,221	1,331
Equipment costs	460	491	915	1,008
Data processing fees and supplies	593	571	1,143	1,129
Credit card interchange	388	388	746	716
Other expense	2,276	2,146	4,565	4,304
Total noninterest expense	9,854	9,298	19,604	18,661
INCOME BEFORE INCOME TAX EXPENSE	7,310	6,762	14,365	12,911
Income tax expense	2,528	2,358	4,933	4,452
NET INCOME	\$4,782	\$4,404	\$9,432	\$8,459
Other comprehensive income/loss, net of tax:				
Unrealized gain/(loss) on available for sale securities	(785)	) 1,845	(2,280)	) (241)
TOTAL COMPREHENSIVE INCOME	\$3,997	\$6,249	\$7,152	\$8,218
BASIC WEIGHTED AVERAGE COMMON SHARES	12,065,143	11,907,662	12,039,628	11,890,298
BASIC EARNINGS PER COMMON SHARE	\$0.40	\$0.37	\$0.78	\$0.71
DILUTED WEIGHTED AVERAGE COMMON SHARES	12,365,933	12,259,206	12,353,954	12,261,874
DILUTED EARNINGS PER COMMON SHARE	\$0.39	\$0.36	\$0.76	\$0.69

The accompanying notes are an integral part of these consolidated financial statements.

LAKELAND FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Six Months Ended June 30, 2006 and 2005

(in thousands)

(Unaudited)

(Page 1 of 2)

	2006		2005
Cash flows from operating activities:			
Net income	\$9,432		\$8,459
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation	835		958
Provision for loan losses	1,092		1,120
Amortization of intangible assets	104		105
Amortization of loan servicing rights	228		306
Net change in loan servicing rights valuation allowance	(58)	)	(69)
Loans originated for sale	(18,852)	)	(21,766)
Net gain on sales of loans	(330)	)	(451)
Proceeds from sale of loans	19,193		20,751
Net (gain) loss on sale of premises and equipment	2		(5)
Net loss on sales of securities available for sale	54		0
Net securities amortization	617		1,356
Stock compensation expense	94		0
Earnings on life insurance	(353)	)	(316)
Net change:			
Accrued income receivable	(229)	)	(638)
Accrued expenses payable	4,027		(46)
Other assets	(3,900)	)	(1,017)
Other liabilities	(1,453)	)	47
Total adjustments	1,071		335
Net cash from operating activities	10,503		8,794
Cash flows from investing activities:			
Proceeds from sale of securities available for sale	\$19,666		\$0
Proceeds from maturities, calls and principal paydowns of securities available for sale	27,511		22,442
Purchases of securities available for sale	(49,122)	)	(27,147)
Purchase of life insurance	(126)	)	(116)
Net increase in total loans	(77,654)	)	(90,979)
Proceeds from sales of land, premises and equipment	48		111
Purchases of land, premises and equipment	(554))	(1,098)

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Net cash from investing activities	(80,231)	(96,787)
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LAKELAND FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Six Months Ended June 30, 2006 and 2005

(in thousands)

(Unaudited)

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	2006		2005	
Cash flows from financing activities:				
Net increase in total deposits	141,835		10,473	
Net increase (decrease) in short-term borrowings	(55,692)	)	68,416	
Payments on long-term borrowings	(1)	)	0	
Dividends paid	(2,884)	)	(2,611))
Proceeds from stock option exercise	1,272		879	
Purchase of treasury stock	(98)	)	(81))
Net cash from financing activities	84,432		77,076	
Net change in cash and cash equivalents	14,704		(10,917))
Cash and cash equivalents at beginning of the period	82,679		103,858	
Cash and cash equivalents at end of the period	\$97,383		\$92,941	
Cash paid during the period for:				
Interest	\$21,835		\$11,762	
Income taxes	5,535		5,080	

The accompanying notes are an integral part of these consolidated financial statements.

LAKELAND FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006

(In thousands)

(Unaudited)

NOTE 1. BASIS OF PRESENTATION

This report is filed for Lakeland Financial Corporation (the *Company*) and its wholly-owned subsidiary, Lake City Bank (the *Bank*). All significant inter-company balances and transactions have been eliminated in consolidation. Also included is the Bank's wholly-owned subsidiary, LCB Investments Limited (*LCB Investments*).

The unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with instructions for Form 10-Q. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (all of which are normal and recurring in nature) considered necessary for a fair presentation have been included. Operating results for the three-month and six-month periods ending June 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. The 2005 Lakeland Financial Corporation Annual Report on Form 10-K should be read in conjunction with these statements.

NOTE 2. STOCK COMPENSATION

Effective January 1, 2006, employee compensation expense under stock options is reported using Statement 123 (revised 2004), *Share-Based Payment*. Previously all awards were recorded under the intrinsic value method of APB Opinion No. 25 *Accounting for Stock Issued to Employees*. Statement 123(R) was adopted using the modified prospective method and no restatements were made to prior periods. The following tables provide comparative information on the effects of stock-based compensation expense on net income and earnings per share, as if Statement 123 had been applied for all periods.

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Six Months Ended

	June 30, 2006	2005
Net income (in thousands) as reported	\$ 9,432	\$ 8,459
Deduct: stock based compensation expense determined under fair value based method	n/a	180
Pro forma net income	\$ 9,432	\$ 8,279
Basic earnings per common share as reported	\$ 0.78	\$ 0.71
Pro forma basic earnings per share	n/a	\$ 0.70
Diluted earnings per share as reported	\$ 0.76	\$ 0.69
Pro forma diluted earnings per share	n/a	\$ 0.68

Three Months Ended

	June 30, 2006	2005
Net income (in thousands) as reported	\$ 4,782	\$ 4,404
Deduct: stock based compensation expense determined under fair value based method	n/a	80
Pro forma net income	\$ 4,782	\$ 4,324
Basic earnings per common share as reported	\$ 0.40	\$ 0.37
Pro forma basic earnings per share	n/a	\$ 0.37
Diluted earnings per share as reported	\$ 0.39	\$ 0.36
Pro forma diluted earnings per share	n/a	\$ 0.36

There is no pro forma effect for the six months and three months ended June 30, 2006 since stock based compensation was recorded under Statement 123(R) in 2006. Included in net income for the six months ended June 30, 2006 was employee compensation expense of \$94,000, net of tax of \$38,000. Included in net income for the three months ended June 30, 2006 was employee compensation expense of \$81,000, net of tax of \$33,000.

Basic earnings per common share is based upon weighted-average common shares outstanding. Diluted earnings per share show the dilutive effect of additional common shares issueable.

The common shares outstanding for the stockholders' equity section of the consolidated balance sheet at June 30, 2006 reflects the acquisition of 82,134 shares of Company common stock to offset a liability for a directors' deferred compensation plan. These shares are treated as outstanding when computing the weighted-average common shares outstanding for the calculation of both basic and diluted earnings per share.

NOTE 3. LOANS

	June 30, 2006	December 31, 2005
Commercial and industrial loans	\$ 908,356	\$ 850,984
Agri-business and agricultural loans	116,122	113,574
Real estate mortgage loans	84,755	66,833
Real estate construction loans	8,781	7,987
Installment loans and credit cards	158,330	159,390
Subtotal	1,276,344	1,198,768
Less: Allowance for loan losses	(13,792)	(12,774)
Net deferred loan fees	(34)	(38)
Loans, net	\$1,262,518	\$1,185,956
Impaired loans	\$ 6,211	\$ 6,948
Non-performing loans	\$ 6,660	\$ 7,495
Allowance for loan losses to total loans	1.08%	1.07%

Changes in the allowance for loan losses are summarized as follows:

	Six months ended June 30,	
	2006	2005
Balance at beginning of period	\$ 12,774	\$ 10,754
Provision for loan losses	1,092	1,120
Charge-offs	(130)	(236)
Recoveries	56	86
Net loans charged-off	(74)	(150)
Balance at end of period	\$ 13,792	\$ 11,724

NOTE 4. SECURITIES

The fair values of securities available for sale were as follows:

	June 30, 2006	December 31, 2005
U.S. Treasury securities	\$ 946	\$ 966
U.S. Government agencies	30,012	30,484
Mortgage-backed securities	205,197	206,596
State and municipal securities	52,470	52,889
Total	\$ 288,625	\$ 292,935

As of June 30, 2006, net unrealized losses on the total securities available for sale portfolio totaled \$7.8 million. As of December 31, 2005, net unrealized losses on the total securities available for sale portfolio totaled \$4.2 million. Management considers the unrealized losses to be market driven and no loss is expected to be realized unless the securities are sold. All of the securities are backed by the U.S. Government, government agencies, government sponsored agencies or are A rated or better, in the case of non-local municipal securities. None of the securities have call provisions (with the exception of the municipal securities) and payments as originally agreed are being received. There are no concerns of credit losses and there is nothing to indicate that full principal will not be received. The Company does not have a history of actively trading securities, but keeps the securities available for sale should liquidity or other needs develop that would warrant the sale of securities. While these securities are held in the available for sale portfolio, the current intent and ability is to hold them until a recovery in fair value or maturity.

NOTE 5. EMPLOYEE BENEFIT PLANS

Components of Net Periodic Benefit Cost

	Six Months Ended June 30, Pension Benefits		SERP Benefits	
	2006	2005	2006	2005
Service cost	\$ 0	\$ 0	\$ 0	\$ 0
Interest cost	72	75	38	40
Expected return on plan assets	(84)	(73)	(46)	(51)
Recognized net actuarial loss	22	19	26	21
Net pension expense	\$ 10	\$ 21	\$ 18	\$ 10

	Three Months Ended June 30,		SERP Benefits	
	Pension Benefits			
	2006	2005	2006	2005
Service cost	\$ 0	\$ 0	\$ 0	\$ 0
Interest cost	36			